

The Commercial Record

Connecticut's Weekly Business Newspaper Since 1882

A PUBLICATION OF THE WARREN GROUP

Predatory Lending Placed In Spotlight at Symposium

By Jeff Haynes

A DUBIOUS DISTINCTION AND A SENATOR POSITIONED to enable reform have put Connecticut at the front line of predatory lending.

Attendees at a symposium held earlier this week were urged to write Sen. Christopher Dodd, D-Conn., asking him to introduce a predatory lending reform bill into the Committee on Banking, Housing and Urban Affairs, which Dodd chairs. The plea for support followed a disturbing presentation of data highlighting the racial profiling of predatory lenders in Greater Bridgeport.

"I think there's some unhealthy stuff going on in the marketplace," said Joshua Silver, vice president of research and policy for the National Community Reinvestment Coalition, while speaking as a panelist at Tuesday's "Predatory Lending: Assessing the Problem & Highlighting Solutions" symposium held at Fairfield University. The event was presented by the Stamford-based Housing Development Fund, a bank providing funding for affordable housing and an array of homebuyer assistance programs.

Noting that predatory lenders target minorities, Silver presented data tracking prime versus subprime loan originations in Greater Bridgeport. Of the loans made to white borrowers, 14.5 percent were subprime, he said, while 44 percent of the loans to black borrowers were subprime. Silver said the gap represents the second-worst case of such disparity nationwide.

In the same market, subprime loans accounted for 28 percent of the loans to the low- to moderate-income borrowers, and only 15 percent of the loans to middle- to upper-income borrowers, he said.

As for federal reform addressing predatory lending, "things have been distressingly slow in Congress and the regulatory agencies," Silver said. One exception, he added, is the Borrower's Protection Act of 2007, which was sponsored by Sen. Chuck Schumer, D-N.Y.

Some of the bill's provisions include un-



Commercial Record staff photo by Jeff Haynes

Panelists at Tuesday's predatory lending symposium at Fairfield University are: (from left) Joshua Silver of the National Community Reinvestment Coalition, Kenneth Willis of the Federal Home Loan Bank of Boston and Melvina Peters of the Stamford-based Housing Development Fund, which presented the event.

derwriting loans at the fully indexed rate; requiring originators to create escrow to pay taxes and hazardous insurance on subprime loans; prohibiting brokers from directing consumers to rates, charges, principal amounts or prepayment terms that are not suitable to the borrower; prohibiting originators from influencing the appraisal process; and holding lenders responsible for policing their associated appraisers and brokers.

Dodd, as chairman of the Committee on Banking, Housing, and Urban Affairs, is the only one who can call the bill up for a hearing, Silver said. Handouts distributed by Silver at the symposium detailed the bill's aims, and provided sample letters for the attendees to use in writing to Dodd to give the bill a hearing.

Another feature of the reform bill is a \$300 million foreclosure prevention fund to assist

nonprofits in counseling, loan restructuring and refinancing. That type of consumer outreach and education, the three members of the symposium panel stressed, is crucial to battling predatory lending.

"The solution is simple: education, education, education," said Melvina Peters, the homebuyer education coordinator for the Housing Development Fund. "You just can't get away from that."

In many cases, "consumers are making the wrong choices because they're unaware of the alternatives," Peters said.

The challenge is finding a way to show the borrowers all their options, as well as warning signs of a predatory loan, she said. That can be difficult, she added, because predatory lenders know their clients' culture, are open seven days a week, and visit clients in

continued on page 2

their homes and churches.

"We have to do a better job of marketing," Peters said. "We must learn to speak the language of our clients."

Kenneth Willis, vice president and director of housing and community investment for the Federal Home Loan Bank of Boston, also stressed the importance of education.

Describing some of the exotic loans used by predators, he said, "people don't really understand what they're signing."

One warning sign of predatory lending is a loan that is based on a property's foreclosure value, as opposed to the borrower's ability to repay, Willis said. Another sign is a broker who repeatedly refinances the loan to collect points and fees, he added.

Silver agreed.

"Predatory lenders have employed a lot of

ingenuity in traps and tricks," he said. "It doesn't end once you've closed on a loan."

Peters cited as an example the case of a woman who had a manageable mortgage, and was offered a check for the equity in her house on the condition that she refinance her loan. The woman was ready to take the check, Peters said, until she learned – at Peters' urging – that her new interest rate would have been 11 percent and that the new loan was loaded with fees.

"That's what our clients are faced with," Peters said. "Post-purchase counseling is critical for protecting assets."

The difference between subprime and predatory lending, said Silver, is that a predatory loan charges more in interest and fees than is required to cover the added risk of a subprime borrower's credit imperfections.

Predatory loans contain abusive terms and conditions that trap borrowers, leading to increased indebtedness, he said.

Put simply, "it robs families and communities of wealth," Silver said. "NCRC wants to increase responsible lending in communities."

The Washington, D.C.-based coalition works toward increasing fair access to credit and banking services. Silver said the organization has helped save 5,000 families from foreclosure through its rescue loan program.

"We urgently need a strong, national anti-predatory law," Silver said. The Schumer bill could help between 300,000 and 900,000 families avoid foreclosure annually, he said.

Each foreclosure costs all the parties involved an estimated \$80,000, while the counseling to help a family keep its home costs \$1,000, he said. ■